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MODERN SLAVERY IN SUPPLY CHAINS AND THE IMPORTANCE OF DETECTING IT

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With millions of people worldwide trapped in modern slavery — forced labor, human trafficking, and other forms of exploitation — companies are increasingly responsible for ensuring their businesses and supply chains are free from these abuses. Recognizing this, modern slavery has become a top key performance indicator (KPI) in environmental, social, and governance (ESG) programs, particularly within high-risk sectors like extractives, construction, and agriculture. This article explores the different types of modern slavery and examines the new EU Corporate Sustainability Due Diligence Directive (CSDDD), which will require companies to take action to prevent human rights violations in their supply chains. It also examines recent real-life examples of how companies have been linked to modern slavery, highlighting the urgent need for businesses to act now.

What is modern slavery?

The term “modern slavery” encompasses a variety of conditions in which individuals are held or forced to conduct labor in involuntary circumstances. The two most common forms are:

- ◆ **Human trafficking**, which is the recruitment, transportation, and transfer of people through force, fraud, coercion, or deception with the aim of exploiting them sexually or for profit; and
- ◆ **Forced labor**, where individuals are coerced into carrying out any type of labor or service, usually under the threat of penalty or punishment.

While every instance of forced labor is a form of modern slavery, it is vital to acknowledge that the wider umbrella of modern slavery also covers other conditions. One of these is forced marriage, a practice

common in many parts of the world with an estimated 22 million victims, over two-thirds of whom are female.¹ Another form of modern slavery is child labor; this is a widespread practice that has become increasingly difficult to detect. Not all work performed by children is defined as child labor, and it is permissible in some geographies. In some societies, the victims' legal guardians are also the perpetrators.

The most widespread form of forced labor is debt bondage, also known as bonded labor, where victims are manipulated into working for little or no compensation to repay a debt. Victims of debt bondage are often from marginalized communities, and when trafficked to a new country, they become solely reliant on their captors. The prevalence and invisibility of debt bondage make it a practice that companies around the world find themselves increasingly exposed to — either within their own operations or within their supply chains.

The statistics around modern slavery are particularly grim. The International Labour Organization (ILO), a United Nations (UN) agency setting international labor standards, estimates that nearly 50 million people around the world are currently living in conditions of modern slavery. According to a study published by the ILO in March 2024, the illegal annual global profits generated in the private economy from forced labor amounted to US\$236 billion, reflecting a US\$64 billion rise from 2014.² This increase is attributed to both the growing number of people forced into labor and higher levels of profit generated from each victim.

The EU CSDDD and its anticipated contribution

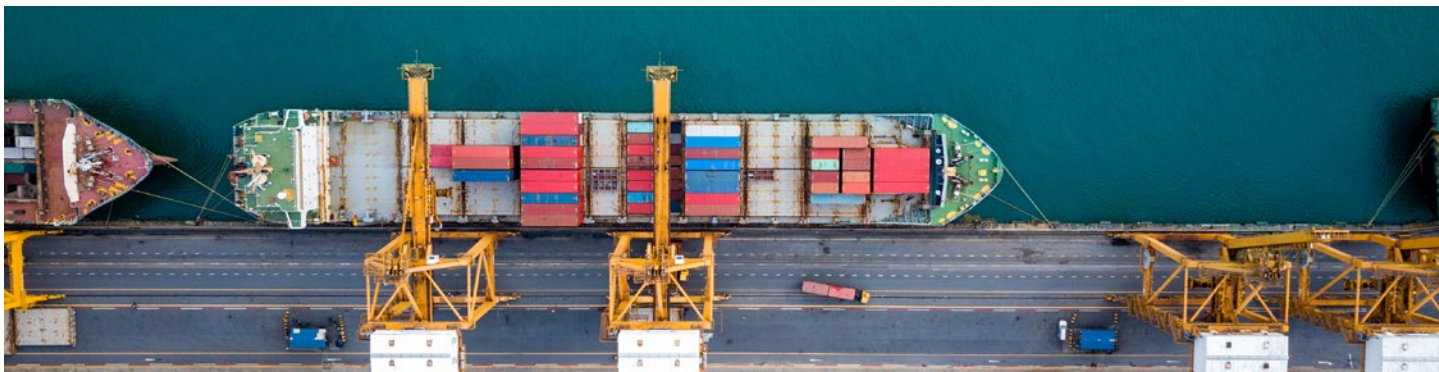
Eradicating modern slavery has been a defined priority for the global community for the last couple of decades. Most notably, the 2030 Agenda for Sustainable Development, which was adopted by UN members in 2015, created 17 global Sustainable Development Goals (SDGs), of which SDG 8.7 calls on countries to “take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour [. . .] and by 2025 end child labour in all its forms.”³ While significant challenges remain to achieve this goal, a wide array of regulatory acts and domestic legislations to combat modern slavery have been put in place in recent years, including ones in the UK, Australia, and Canada.

The most prominent directive in this regard is the CSDDD; this legislation was formally adopted by the EU in July 2024, making thousands of companies accountable for their human rights and environmental impacts.⁴ It is hard to understate the potential impact of the CSDDD, which represents a critical step forward from the previous EU Corporate Sustainability Reporting Directive and other domestic legislation that encouraged companies to publicly disclose their approach to human rights but generally focused on reporting rather than action. The CSDDD will require companies falling under its scope to implement robust due diligence processes, increase transparency, and take responsibility for their

impact or contribution to violations of human rights, either within their own operations or in their supply chains.

One of the CSDDD's other major differentiators is its reach; the requirement to identify, prevent, and mitigate adverse human rights and environmental impacts is not limited to EU companies but also extends to non-EU companies with operations in the EU. Also noteworthy is its introduction of civil liability: companies falling within the scope could be held liable for human rights harms caused by their operations or supply chains. As such, the CSDDD is expected to profoundly impact on businesses globally. The full transposition of the CSDDD in EU member states is still ongoing, and member states have until July 2026 to implement the directive into their national laws. It is noteworthy that the directive also requires that each member state designates a supervisory authority responsible for overseeing compliance with it, suggesting that enforcement of the CSDDD will likely be more stringent than in previous acts.

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Modern slavery: Most reported metric within the “social” of ESG

In early 2024, S-RM commissioned a survey with 550 corporations and 200 investors across the UK, France, Germany, Netherlands, and the U.S. to understand the extent to which “social” issues within ESG were considered to be a growing risk and/or value-creation opportunity.⁵

Our survey found that human rights and modern slavery constitute the most common elements in ESG programs, with 57% of corporate respondents reporting to include them. This attributed significance to human rights and modern slavery is in line with the steady increase of regulations in this area. But beyond the regulatory pressure, corporations face growing pressure from consumers, nongovernmental organizations, and investors to ensure ethical and sustainable supply chains. When it relates to human rights and modern slavery, the reputational risk of not addressing the issues — and the added value in taking adequate action — compels decision-makers to prioritize these areas.

Some sectors are at a higher risk for modern slavery, such as extractives, construction, manufacturing, agriculture, and fishing. This is because their supply chains are often complex and global,

involving multiple tiers of suppliers, subcontractors, and intermediaries across different regions. This complexity can make it challenging for companies to have full visibility into human rights violations occurring at various stages of production and distribution. In some countries, where governments limit the work of independent media, civil society organizations, and human rights monitoring bodies, the identification of modern slavery becomes even more challenging, requiring companies to use external support to obtain other methods of intelligence, such as on-the-ground site visits or the use of satellite imagery.

Another common denominator for the supply chains used in these more exposed industries is their reliance on low-skilled labor, which is more easily exploited. Companies in these sectors also have higher rates of migrant workers and other vulnerable populations, who can be more susceptible to exploitation due to poverty, lack of legal status, language barriers, or social exclusion. Additionally, their supply chains often span across remote and isolated locations, where infrastructure, government presence, and access to social services may be lacking, making it easier for exploitation to occur without detection. In our survey, it was therefore unsurprising that

companies in these sectors have named human rights and modern slavery as the most measured KPI, with 60%, 57%, and 56% of respondents in manufacturing, mining and resources, and fast-moving consumer goods (FMCG), respectively, all stating they have KPIs or targets relating to human rights or modern slavery.

Furukawa Plantaciones: When executives are convicted of modern slavery

A recent case about a Japanese company named FPC Marketing Co. Ltd illustrates the relevance of domestic modern slavery legislation and rulings for companies globally. In recent years, FPC’s Ecuadorian abaca-harvesting subsidiary Furukawa Plantaciones CA has been at the heart of a major human rights scandal in Ecuador. Abaca is a natural fiber derived from the leaves of the abaca plant, which is used to make paper money, rope, tea bags, cars, and a wide variety of other products. Ecuador is an important producer of abaca, estimated to be exporting about 7,000 tons every year to the U.S., Europe, and Asia, generating more than US\$17 million in annual revenue.⁶ Since Furukawa’s foundation in 1963, generations of workers in its plantations — predominantly Afro-Ecuadorian — have faced horrific conditions. They were paid poverty

wages, forced to live in squalid, overcrowded housing — even their children were forced to work in the fields. Basic human rights, like the freedom to form unions and bargain collectively, were denied. A 2019 report by the Ecuador Ombudsman's Office confirmed these allegations, painting a disturbing picture of forced labor, debt bondage, and human trafficking.⁷

After years of legal battles, a landmark ruling by the Ecuadorian Constitutional Court in February 2023 found Furukawa and its executives guilty of modern slavery and human trafficking. This verdict was a crucial win for human rights and a strong condemnation of the company's abhorrent practices. The court also criticized the Ecuadorian government for failing to protect workers' rights and its lack of adequate supervision. This inaction allowed the exploitation to continue for decades.⁸ This case serves as a stark reminder of the importance of corporate accountability and transparency in global supply chains. It also highlights the crucial role governments play in ensuring businesses respect human rights, and that even in a country where modern slavery may not be at the top of the government's agenda, the judiciary can play a critical role in protecting the constitutional rights of its citizens and workers.

Aranouti Pitta Bread Bakery: Modern slavery in the UK

In contrast with common perception, modern slavery is not confined to developing countries. In early 2024, several of the largest supermarket chains in the UK found themselves at the center of media coverage that revealed they had sourced goods from a UK bakery that was fully reliant

on forced labor.⁹ According to the allegations, four Czech nationals had lured a dozen vulnerable individuals from the Czech Republic and Slovakia to the UK, promising them a better life — only to then enslave them. Once in the UK, the victims — mostly in their 20s and 30s — were forced into working at either a McDonald's franchise in Cambridgeshire or at the bread manufacturer Aranouti Pitta Bread Bakery Ltd. The victims were compelled to work long, grueling hours in a bakery and a car wash, with their already-low wages siphoned by their captors. Their passports were confiscated, confining them to a life of dependency and control.

The owners of the Aranouti bakery allegedly targeted individuals who were already vulnerable, unemployed, homeless, or financially struggling. The victims — many of whom had limited or no English language skills — were entirely reliant on their perpetrators, who controlled their every move. The trial, currently underway, has shed light on the dark underbelly of human trafficking. The defendants face multiple charges of human trafficking and modern slavery, each carrying significant prison sentences.

The Aranouti bakery, which operated two sites in Hoddesdon, Hertfordshire, and Tottenham, North London, has supplied products to the largest supermarket chains in the UK, including Asda, Co-op, M&S, Sainsbury's, Tesco, and Waitrose. A BBC investigation into this matter in September 2024 found that most of these supermarket chains failed to detect slavery in real time.¹⁰ Asda reportedly commented that

they had made three visits but focused only on food safety and were "disappointed that a historic case has been found in our supply chain," adding that they would "review every case identified and act upon the learnings."¹¹ Co-op reportedly commented that they had made unannounced inspections, including worker interviews, but found no signs of modern slavery, adding that they are actively working to tackle the issue both in the UK and abroad. M&S admitted they only suspended and delisted the supplier after they — eventually — became aware of potential breaches of ethical labor standards via the modern slavery helpline.

This case serves as a stark reminder of the importance of corporate accountability and transparency in global supply chains.

Notably, two of these chains managed to dodge a reputational hit by proving that their compliance programs had indeed detected the issue before it was published by the media. Specifically, Tesco explained that their inspections in 2020, supported by a local anti-slavery charity, had revealed concerns about working practices

and that Tesco subsequently ceased all orders from the bakery in the same year. Waitrose also reportedly pulled out from the bakery in 2021 after their audits led to concerns about factory standards and working conditions.¹²

Conclusion

Both the Furukawa and the Aranouti cases teach us that simple box-ticking in the form of a statement on modern slavery policies is insufficient. Companies that hope to avoid penalties and litigation, keep their client base and protect their reputation are now required to take proactive action to ensure they are neither facilitating nor sourcing goods or services from modern slavery. The good news is that building a robust human rights program can usually allow companies to tackle issues relating to modern slavery. Companies that set up a comprehensive approach to human rights should also have the right mechanisms in place to reduce modern slavery risks in their supply chains. 

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Takeaways

- ◆ Modern slavery encompasses a range of exploitative practices, including human trafficking, forced labor, forced marriage, and child labor, with millions of victims worldwide.
- ◆ The fight against modern slavery is gaining momentum with stricter regulations like the EU's Corporate Sustainability Due Diligence Directive, which will hold companies accountable for human rights violations in their supply chains.
- ◆ A survey revealed that human rights and modern slavery are the most common elements of environmental, social, and governance programs—especially in high-risk sectors like extractives, construction, and agriculture.
- ◆ Recent cases in Ecuador and the UK have highlighted the challenges in detecting modern slavery within complex supply chains—even for large retailers with established compliance programs.
- ◆ These cases underscore the need for proactive measures to combat modern slavery—beyond mere compliance statements—to ensure ethical supply chains and protect corporate reputations.